

Testimony of
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on
Medicaid Payments for School-Based Services
before the
Senate Finance Committee
April 5, 2000

Chairman Roth, Senator Moynihan, distinguished Committee members, thank you for inviting me to discuss Medicaid funding for school-based services. I would also like to thank the General Accounting Office for helping us to ensure that these payments are appropriate.

School-based health services play an important role in making access to certain health care services available to children who otherwise might go without needed services. We believe that these services play an important role in supporting and enhancing children's progress in schools. Schools also offer unique advantages and opportunities to reach children and encourage their families to enroll in the Medicaid and State Children's Health Insurance Programs. We strongly encourage schools to provide services and conduct outreach, and we are committed to ensuring that all eligible children are enrolled in these programs and receive the services they need.

States have been leading the way in developing and implementing programs that effectively utilize schools to increase access to services for children. However, in some instances, there has been confusion and possible disregard of the restrictions on claiming federal funds for school-based services. Problems identified include:

- "bundled" payment for groups of services to children with school-based services.
- disabilities without documentation of the actual delivery of services or their costs;
- payment for services to children who are not eligible for Medicaid;
- billing for transportation costs that Medicaid does not cover; and
- billing for administrative activities that Medicaid does not cover.

We are taking action to address these concerns and prevent improper claims for federal Medicaid funds.

- We are no longer approving proposals to use bundling methodologies and identified key issues that need to be addressed.
- We have clarified transportation issues and will provide further clarification where needed.
- We are circulating a draft Medicaid School-Based Administrative Claiming Guide intended to help schools correctly bill for the Medicaid services they provide by consolidating and providing a consistent national statement of existing requirements.
- We will provide training and technical assistance to schools and school districts on how to use existing guidance to claim for administrative services and how to use the guide once it is final.
- We also have taken action to defer inappropriate claims.

We agree with the GAO that payment methodologies should balance the need to ensure the proper expenditure of Federal Medicaid funds and the flexibility of States to expend such funds without being unduly burdened. This, however, has not proven to be easy. As the GAO observed in their testimony last year, "Striking a balance between the stewardship of Medicaid funds and the need for flexible approaches to ensure the coverage and treatment of eligible children is difficult."

We are working to improve the collection and analysis of data on State Medicaid school-based program expenditures so we will have a clearer picture of the needs and challenges before us. We are also reviewing our oversight and monitoring in this area. We are committed to working with States and school districts to overcome remaining challenges and ensure that all parties understand their opportunities and obligations with regard to the provision of school-based Medicaid services.

Background

Medicaid covers school-based services when they are primarily medical and not educational in nature. They must be provided by a qualified Medicaid provider to Medicaid-eligible children, and cannot be provided free to all students. For services included under the Individuals with Disabilities Education Act, they must be considered medically necessary for the Medicaid-eligible child and they must be listed in the child's Individualized Education Program. The services provided in schools can include:

- routine and preventive screenings and examinations;
- diagnosis and treatment of problems found;
- monitoring and treatment of chronic medical conditions; and
- speech, occupational, or physical therapy, or other services provided to children under the Individuals with Disabilities Education Act.

Medicaid funding for school-based services was limited to coverage for routine screenings and treatment of acute, uncomplicated problems until 1988. Then, Medicaid's role in supporting school-based health care was expanded under the Medicare Catastrophic Coverage Act. That law stipulates that Medicaid -- not the Department of Education or local school districts -- pays for services provided to Medicaid-eligible children with disabilities. In order for Medicaid to pay for their school-based care, such children must have an Individualized Education Program, in accordance with the Individuals with Disabilities Education Act.

There has been a surge of State interest in Medicaid reimbursement for school-based health services, mostly for Medicaid-eligible children with special needs under the Individuals with Disabilities Education Act. We have encouraged this because of the potential for school-based services to contribute to the growth and development of school age children, allowing them to progress better in school and participate with their non-disabled peers.

Because of concerns about potential improper claiming, we issued a letter to State Medicaid Directors last May clarifying existing policy and halting certain practices. Underlying the May 1999 letter is a very simple, but critical, principle -- Medicaid funds must only be used to provide Medicaid covered services to Medicaid-eligible children at a reasonable cost. There are key additional activities of Medicaid, such as outreach and enrollment assistance, but the general rule for services is clear.

However, it has not been easy to balance our program integrity goals with the need to ensure that children receive necessary services. While we have taken several important steps toward clarifying our policy and implementing additional monitoring efforts, we also recognize that additional measures are needed. We are committed to working with States, schools, the Department of Education, the IG, GAO and Congress to determine and achieve the right balance so children receive the care they need and Medicaid funds are spent appropriately in accordance with the law.

Bundling

Under a bundling system, States make weekly or monthly payments to schools based on a package of services that are needed by children within various categories of disabilities, rather than paying separately for individual services. Rates for these payments are usually based on a survey of the service needs of children in various disability categories. Many services may be included in the bundled rate, such as physical therapy and speech therapy. Often, the payment is the same regardless of the number of services actually provided or the specific costs of the services involved.

HCFA initially approved some bundling methodologies because they seemed an efficient way to give States and schools both the funding and the flexibility they need. However, schools have not had the types of data readily available that are necessary to support bundling. We agree with GAO that existing bundling methodologies may have placed Medicaid at risk for improper claims because they do not ensure that services have been provided or are eligible for coverage. That is why, in our May 1999 letter, we informed States we would no longer approve bundling methodologies. This suspension has allowed time to explore ways to balance the need for flexibility with our obligation to protect

Medicaid program integrity.

With our partners, we have identified several outstanding challenges. Key among these is finding the appropriate balance between the need for, and the burden of, using and maintaining appropriate documentation. As noted by the GAO report, school-based providers usually do not use such documentation of the services actually provided in developing bundled billing methodologies. They may not maintain adequate or readily available documentation of the services actually provided for bundled payments. They may not have the administrative infrastructure needed to do so. Also, all States do not conduct periodic reviews to reconcile claims for services delivered and costs for those services.

Without proper documentation, there is no reliable basis for determining whether the needed service was delivered at a reasonable rate. States could obtain Federal matching funds for services that have not been provided. And it is possible that States could claim funds for services that are not covered by Medicaid. This could violate the Social Security Act, which requires that States have methods and procedures to assure that Medicaid payments are consistent with efficiency, economy, and quality of care.

We believe the processes that have been used for developing bundled rates have been inconsistent with economy, since the rates were not designed to accurately reflect true costs or reasonable fee-for-service rates. The processes were not consistent with the efficiency requirement, since they would require substantial Federal oversight to establish the accuracy and reasonableness of State expenditures. As a result, there is no reliable basis for determining that the bundled payment rate is related to the actual cost.

To help us address these issues, we created a workgroup in July 1999 with representatives of State Medicaid Agencies, the Department of Education, local education agencies and the Office of Management and Budget. The workgroup heard a variety of perspectives, and played a key role in helping us to define several issues that should be considered in bundled payment methodologies for school based services. These issues include:

- **Documentation** that goes beyond requiring simple "assurances." States need to provide detailed information at the provider or school level to establish auditable records and develop methods for the maintenance of documentation.
- **Retrospective reconciliation** or other safeguards to assure that the bundled payment methodology continues to reflect the services that are delivered.
- **Reasonable payment** rates derived from identification of reasonable costs for specific services included in bundled payments, and recognizing varying levels of services needed by children with different needs.
- **Statistically valid sampling methodologies** to accurately identify services provided to Medicaid-eligible children with disabilities who have an Individualized Education Program. The sampling methodology should take into account the medical needs of children with varying disabilities and geographic distribution of children with disabilities.

Any methodology that does not address these issues could place the Federal government at

risk for expenditures not permitted by law. We are now testing statistical sampling methodologies and working with Department of Education colleagues and others to better identify what documentation schools have or could reasonably maintain. We also are considering use of outside expert contractors to help us develop appropriate reimbursement methodologies and requirements, as we have done for other prospective payment systems.

Transportation

Schools can be reimbursed for a variety of transportation costs that are related to provision of Medicaid services. We agree with the GAO that policies for reimbursement of transportation costs should offer equitable treatment for children with different types of disabilities.

We issued a letter to State Medicaid Directors in May 1999 to clarify several issues:

- Transportation to and from school may be claimed when the child receives a medical service in school on a particular day and when the need for medically necessary specialized transportation is specifically listed in a student's Individual Education Plan.
- If a child requires transportation in a specially adapted vehicle, including a specially adapted school bus, that transportation may be billed to Medicaid only on days when the child receives a Medicaid-covered service.
- Transportation from school to a provider in the community may be billed to Medicaid.
- States must provide documentation of transportation service, usually in the form of a trip log maintained by the provider of the specialized transportation service.
- States must describe the methodology used to establish the transportation rate in the State Medicaid plan.
- States must develop a cost allocation methodology to ensure that Medicaid only pays for that portion of the specialized transportation (and regular bus transportation with an aide) attributable to Medicaid beneficiaries.

We agree with the GAO that the May 1999 letter has not eliminated all confusion on transportation matters. We will issue additional guidance on coverage of transportation when an aide or other medical professional accompanies a child. We also plan to further clarify transportation services, including the specific types of vehicles, staff, characteristics, and purposes of service that may be claimed for children with Individualized Education Programs. And we will work with our regional offices to assure that there is a uniform understanding and application of these policies.

Administrative Claiming

Schools are allowed to bill Medicaid for administrative costs related to outreach, enrollment, and provision of Medicaid services. However, there has been confusion regarding precisely which administrative services qualify for reimbursement and how to calculate such things as

the share and value of professional staff time. We agree that there must be a uniform national statement of requirements for claiming the costs of school-based administrative activities. That is why we developed the draft *Medicaid School-Based Administrative Claiming Guide*.

The Guide is intended to help schools provide Medicaid services by consolidating and clarifying existing requirements for claiming related administrative costs. When final, it will provide a consistent national statement of these requirements. It will not establish new policies. It will serve as a reference on all aspects of school-based administrative claiming, and allow States to feel comfortable that they are submitting claims in compliance with the law.

For example, it includes a thorough discussion of claiming for administrative activities performed by skilled professional medical personnel. It addresses time study sampling methodologies, which are the primary mechanism for identifying and categorizing administrative activities performed by school employees that may be properly reimbursed under Medicaid. And it provides standard activity codes that may be further tailored to reflect local differences and other appropriate accounting methods allowed. Such an approach addresses the need for a balance between State/local flexibility and consistency within and across States.

We released a draft of the Guide in February to solicit comments from States, schools, and other interested parties. We have asked interested parties to give us feedback by April 3. The draft is available on the HCFA web site at www.hcfa.gov. Once we have reviewed the feedback we expect to make changes before issuing a final Guide. At that time, we will work to help all relevant parties understand how to use it, particularly small school districts that would otherwise have difficulty claiming. This will include technical assistance, regional conference calls, and a national training session in Baltimore. Schools and school districts will be a critical part of our training effort. We have already begun working with school districts to foster an understanding of related policy.

We also will incorporate the Guide into formal financial management tools, procedures, review guides, and manuals on the oversight of school-based services and administrative activities. We will review existing Medicaid expenditure reporting and work with States to identify additional data that should be gathered. We will work prospectively as partners with States to ensure that proper claiming methodologies are used and to ensure that any future changes in claiming procedures by States will be part of a formal review and approval process. And, consistent with our legal authority and responsibility, we will recoup funds inappropriately claimed by States.

We share the concerns expressed by the GAO and several members of Congress that private firms who receive a percentage of reimbursement as payment for consulting and billing services, rather than a fixed fee, have an incentive to maximize the amount of reimbursement claimed, and we will further review claims to ensure that no consultant's contingency fees are included. We also share GAO concerns about States retaining a share of Federal funds related to schools' claims. However, this practice is allowable under current law and can only be changed by the Congress.

CONCLUSION

We recognize that many challenges remain in striking the balance between ensuring fiscal integrity and providing appropriate school-based Medicaid services. We are committed to taking all necessary steps to ensure proper and efficient operation of school-based programs. We will work with our Federal, state, and local partners to continue to address these issues. I thank you again for holding this hearing, and I am happy to answer your questions.

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